

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER KOKSTAD MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Kokstad Municipality, which comprise statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of GRAP 1, *Presentation of Financial Statements*, requires that financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Greater Kokstad Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2010 and its financial performance and cash flows for the year then ended in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a change in accounting policies due to application of Standards of GRAP in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Fruitless and wasteful and irregular expenditure

11. As disclosed on note 41.1 to the financial statements, the municipality incurred fruitless and wasteful expenditure due to late submission of tax returns amounting to R33, 084 that was condoned by the council during the year. Furthermore, fruitless and wasteful expenditure of R16 997 was incurred for salary overpayments not recovered.
12. As disclosed in note 41.2 to the financial statements, irregular expenditure to the amount of R478 136 was incurred, as a proper supply chain management process had not been followed and awards were made to entities owned by persons in the service of the state.

Material losses

13. As disclosed in note 48 to the financial statements, material loss of electricity to the amount of R5,370 million was incurred by the municipality during the year.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.
16. The other supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), the Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations) and financial management (internal control).

Predetermined objectives

18. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Lack of implementation of a performance management system

19. The municipality did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements (predetermined objectives)

20. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45 of the MSA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

21. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

Inadequate content of integrated development plan

22. The integrated development plan of the municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Reliability of reported performance information

23. The following criteria were used to assess the usefulness of the planned and reported performance:
- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
 - **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

24. The following audit findings relate to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

25. Adequate explanations for major variances between the planned and the actual reported targets for the selected programmes were not reported, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances had no explanation for such variances.

Planned and reported indicators and measures not well defined

26. For the selected programmes, 100% of the planned and reported indicators and measures were not well defined in writing to allow for data to be collected consistently.

Compliance with laws and regulations

Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA)

Expenditure was incurred not in accordance with applicable legislation resulting in fruitless and wasteful expenditure

27. Contrary to the requirements set out in section 62(1)(d) of the MFMA, fruitless and wasteful expenditure was incurred, as it was made in vain, and could have been avoided based on the fact that reasonable care had been exercised, as defined in section 1 of the MFMA.

Payments were not made within the parameters set by the applicable legislation

28. Contrary to the requirements of section 65(2)(e) of the MFMA, the accounting officer did not ensure that the invoices or statements were paid within 30 days of receipt of such invoices and statements.

The financial statements were not prepared in accordance with applicable legislation

29. Contrary to the requirements of section 122(1) of the MFMA, the financial statements submitted for audit were subject to material adjustments due to errors noted during the audit.

Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations)

Supply Chain Management legislative requirements were not adhered to (resulting in irregular expenditure)

30. Irregular expenditure was incurred due to supply chain management (SCM) processes not being followed, in contravention of regulation 12 and 16 of the SCM Regulations.
31. Contrary to the requirements of regulation 44 of the SCM Regulations, the municipality made awards to entities whose owners were in the service of the state.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with the MFMA and the MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of ensuring that the financial statements were free from material errors and omissions as required by the MFMA. Actions were not taken to address risks relating to the achievement of complete and accurate financial reporting, with the result that material misstatements were identified in the financial statements.

- **Financial management**

The financial systems in place were not effective to facilitate the preparation of and reporting on financial statements in compliance with the MFMA and Standards of GRAP as the financial statements were subject to material adjustments as a result of the audit.

- **Governance**

The municipality did not identify risks relating to the achievement of financial and performance reporting objectives to ensure compliance with laws and regulations.

OTHER REPORTS

Investigation

34. An investigation on fleet card utilisation was conducted during the year. No action was taken against the transgressors based on the legal advice that the municipality obtained after receiving the investigation report.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ACTION PLAN ON AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER KOKSTAD MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

	MATTER RAISED	ACTION TO BE TAKEN	RESPONSIBLE OFFICIAL	COMPLETION DATE
Emphasis of matters	Restatement of corresponding figures As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of a change in accounting policies due to application of Standards of GRAP in the financial statements of the municipality at, and for the year ended, 30 June 2009.	These adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies. There will be no future changes due to GRAP conversion being implemented for the first time at 30 June 2010.	CFO	30 JUNE 2011
	Fruitless and wasteful and irregular expenditure As disclosed on note 41.1 to the financial statements, the municipality incurred fruitless and wasteful expenditure due to late submission of tax returns amounting to R33, 084 that was condoned by the council during the year. Furthermore, fruitless and wasteful expenditure of R16 997 was incurred for salary overpayments not recovered. As disclosed in note 41.2 to the financial statements, irregular expenditure to the amount of R478 136 was incurred, as a proper supply chain management process had not been followed and awards were made to entities owned by persons in the service of the state.	The municipality is now adhering to statutory deadlines where the tax returns are submitted on time to avoid penalties for late submission. Furthermore, necessary procedures will be followed to recover the monies paid in excess for leave pay as well as that of a lost laptop by a former municipal official, debt collection will be instituted. Acquisition of goods and services is done in line with the Supply Chain Management Policy so as to avoid incurring any irregular expenditure. Also, the SCM Policy has been reviewed in line with the Municipal Supply Chain Regulations.	CFO	30 June 2011
	Material losses As disclosed in note 48 to the financial statements, material loss of electricity to the amount of R5,370 million was incurred by	The municipality is in a process of trying to cut down the system losses, bulk metering will be installed in all the Streetlight	EXIPD	30 June 20

	the municipality during the year.	feeders, Robots, Mini subs and Major substations so as to get the total electricity drawn by each of these circuits. A service provider has been appointed for the meter auditing so as to detect any tempering. The municipality is also in a process of changing all credit meters to pre payment metering which will also assist the municipality in selling cash electricity instead of credit to overcome the challenges of debt collection.		
Additional matters	Unaudited supplementary schedules information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, <i>Presentation of Financial Statements</i> . The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon. The other supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.	Supplementary budget schedules and other additional supplementary information were included as Annexures / Appendices to the AFS. AG did not express an opinion on these.	AG	30 November 2010
	REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS As required by the PAA and in terms of <i>General Notice 1570 of 2009</i> issued in <i>Government Gazette 32758 of 27 November 2009</i> , I include below my findings on the report on predetermined objectives, compliance with the Municipal Finance Management Act of South Africa,			

	2003 (Act No. 56 of 2003) (MFMA), the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), the Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations) and financial management (internal control):			
Predetermined objectives: Non-compliance with regulatory and reporting requirements	<i>Lack of implementation of a performance management system</i> The municipality did not have documented and approved internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting of performance information, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.	Management has noted comments from the Auditor General regarding overall monitoring and evaluation of performance. Procedures will be developed for the next financial year.	MM & MPD	30 June 2011
	<i>Internal auditing of performance measurements (predetermined objectives)</i> The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45 of the MSA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.	Management agrees with the audit findings however an extensive internal audit on performance management was conducted with the assistance of the Provincial Treasury and its findings were presented to the Audit Committee and Council. Management has implemented all the recommendations of the findings during the finalisation of the performance contracts for the 2010/11 financial year	MM & MPD	30 June 2011
	Usefulness of reported performance			

	<p>information</p> <p><i>The following criteria were used to assess the usefulness of the planned and reported performance:</i></p> <ul style="list-style-type: none"> • <i>Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?</i> • <i>Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?</i> • <i>Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?</i> 			
	<p><i>Inadequate content of integrated development plan</i></p> <p>The integrated development plan of the municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.</p>	<p>It is the management view that whilst the IDP is a five year strategic planning document, it is the SDBIP is annual extract of the IDP and should therefore be read with the IDP. The inclusion of the outputs and outcomes in the SDBIP therefore means that the municipality has complied. However, we have noted the comments from the Auditor General and after the completion of the Audit; Management will sit with the office of the AG to look at this matter.</p>	MM & MPD	30 June 2011

	<p>Reliability of reported performance information</p> <p>The following criteria were used to assess the usefulness of the planned and reported performance:</p> <ul style="list-style-type: none"> • Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation? • Accuracy: Have the amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately? • Completeness: Have all actual results and events that should have been recorded been included in the reported performance information? <p>The following audit findings relate to the above criteria:</p> <p><i>Reasons for major variances between planned and actual reported targets were not explained</i></p> <p>Adequate explanations for major variances between the planned and the actual reported targets for the selected programmes were not reported, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances had no explanation for such variances.</p> <p><i>Planned and reported indicators and measures not well defined</i></p> <p>For the selected programmes, 100% of the</p>	<p>The corrective measures for all performance achievements below 75% have been document with corrective measures and included in the annual report for the year ended 30 June 2010.</p>	MM & MPD	31 January 2011
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	planned and reported indicators and measures were not well defined in writing to allow for data to be collected consistently.			
Compliance with laws and regulations: Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA)	Expenditure was incurred not in accordance with applicable legislation resulting in fruitless and wasteful expenditure Contrary to the requirements set out in section 62(1)(d) of the MFMA, fruitless and wasteful expenditure was incurred, as it was made in vain, and could have been avoided based on the fact that reasonable care had been exercised, as defined in section 1 of the MFMA.	Acquisition of goods and services is done in line with the Supply Chain Management Policy so as to avoid incurring any irregular expenditure. Also, the SCM Policy has been reviewed in line with the Municipal Supply Chain Regulations	CFO	30 June 2011
	Payments were not made within the parameters set by the applicable legislation Contrary to the requirements of section 65(2)(e) of the MFMA, the accounting officer did not ensure that the invoices or statements were paid within 30 days of receipt of such invoices and statements.	Invoices are paid within 30 days from the receipt of such. Also, a register as a control measure has been put in place to record and keep track of invoices that have matters to be clarified or queried.	CFO	30 June 2011
	The financial statements were not prepared in accordance with applicable legislation Contrary to the requirements of section 122(1) of the MFMA, the financial statements submitted for audit were subject to material adjustments due to errors noted during the audit.	The majority of the major and material adjustments were mainly matters relating to GRAP conversion since the municipality implemented GARP for the first time in 2010, there will be no such in the future.	CFO	30 June 2011

<p>Compliance with laws and regulations:</p> <p>Municipal Supply Chain Management Regulations of South Africa, 2005 (GNR.868 of 30 May 2005)(SCM Regulations)</p>	<p>Supply Chain Management legislative requirements were not adhered to (resulting in irregular expenditure)</p> <p>Irregular expenditure was incurred due to supply chain management (SCM) processes not being followed, in contravention of regulation 12 and 16 of the SCM Regulations.</p> <p>Contrary to the requirements of regulation 44 of the SCM Regulations, the municipality made awards to entities whose owners were in the service of the state.</p>	<p>Acquisition of goods and services is done in line with the Supply Chain Management Policy so as to avoid incurring any irregular expenditure. Also, the SCM Policy has been reviewed in line with the Municipal Supply Chain Regulations.</p> <p>Treasury will be engaged to assist with verifying supplier members in the municipal database to determine if they are in the service of the state.</p>	CFO	30 June 2011
<p>Internal Control</p>	<p>I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives, as well as compliance with the MFMA and the MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.</p> <p>The matters below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations:</p> <ul style="list-style-type: none"> • Leadership The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of ensuring that the financial statements were free from material errors and omissions as required by the MFMA. Actions were not taken to address risks 	<p>Management has noted the findings; necessary adjustments have been made in the Annual Financial Statements. Weaknesses identified by the auditors were due to GRAP conversion from IMFO.</p> <p>Management agrees with the audit findings however an extensive internal audit on performance management was conducted with the assistance of the Provincial Treasury and its findings were presented to the Audit Committee and Council. Management has implemented all the recommendations of the findings during the finalisation of the performance contracts for the 2010/11 financial year</p>	MM	30 June 2011

	<p>relating to the achievement of complete and accurate financial reporting, with the result that material misstatements were identified in the financial statements.</p> <ul style="list-style-type: none"> Financial management The financial systems in place were not effective to facilitate the preparation of and reporting on financial statements in compliance with the MFMA and Standards of GRAP as the financial response statements were subject to material adjustments as a result of the audit. Governance The municipality did not identify risks relating to the achievement of financial and performance reporting objectives to ensure compliance with laws and regulations. 			
Other Reports	Investigation An investigation on fleet card utilisation was conducted during the year. No action was taken against the transgressors based on the legal advice that the municipality obtained after receiving the investigation report.	Disciplinary processes against the transgressors are in progress in respect of fuel card utilisation are in progress.	EMCS & MHR	30 June 2011

Signed by the Chief Financial Officer:

Name:..... Signature:..... Date:.....

Mr. MA Nkosi
The Accounting Officer
Greater Kokstad Municipality
P. O. Box 08
Kokstad
4700

30 November 2010

Reference: 21459REG09/10

Dear Mr Nkosi,

**MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE GREATER KOKSTAD
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

INTRODUCTION

1. This management report is provided in connection with our audit of the financial statements and the review of the predetermined objectives for the year ended 30 June 2010.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The Accounting officer's responsibilities
 - Misstatements in the financial statements
 - Matters to be drawn to the attention of the users
 - Other legal and regulatory reporting requirements
 - Information technology systems
 - Specific focus areas
 - Details of significant deficiencies in internal control relevant to the audit of the financial statements reporting on predetermined objectives and compliance with laws and regulations
 - Remedial action taken on audit outcomes of prior years
 - Matters that may give rise to future audit findings if not addressed
 - Ratings of the audit findings
 - Summary of detailed audit findings
3. Annexures A, B, and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management's responses thereto.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our audit of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and report on predetermined objectives. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements and report on predetermined objectives, and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or report on predetermined objectives, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion, the following paragraphs could be included in the auditor's report:
 - An Emphasis of matter paragraph only to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements.
 - An Additional matter paragraph to draw users' attention to any matter other than those presented or disclosed in the financial statements that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
 - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
 - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
 - Monitoring and reporting on performance against predetermined objectives.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
 - Disclosing all matters concerning any risk, allegation or instances of fraud.
 - Accounting for and disclosing related party relationships and transactions.

MISSTATEMENTS IN THE FINANCIAL STATEMENTS

Material misstatements corrected

8. The following material misstatements arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required in accordance with the applicable financial reporting framework.

Material misstatements		Dr	Cr	Internal control deficiency
Financial statement line item	Reason for misstatement	R	R	
Accumulated surplus	Depreciation not properly accounted for	3,504,108		Financial and performance systems
Backlog accumulated depreciation	Depreciation not properly accounted for		3,504,108	Financial and performance systems
Bad debts provision	Bad debts provision misstated	14,488,759		Financial and performance systems
Trade receivables	Bad debts provision misstated		14,488,759	Financial and performance systems
Property, plant and equipment (TB)	TB amount not agreeing to AFS	4,787,045		Financial and performance systems
Property, plant and equipment	TB amount not agreeing to AFS		4,787,045	Financial and performance systems
Refuse charges	Revenue overcharged	759,704		Leadership
Refuse charge liability	Revenue overcharged		759,704	Leadership
Landfill provision (BS)	Inappropriate accounting for the landfill provision corrected	4,724,204		Financial and performance systems
Landfill provision expense	Inappropriate accounting for the landfill provision corrected		4,724,204	Financial and performance systems
Accumulated Surplus	Reclassification of	5,991,000		Financial and

	revaluation surplus to the appropriate reserve			performance systems
Revaluation Surplus	Reclassification of revaluation surplus to the appropriate reserve		5,991,000	Financial and performance systems
Investment Property Vacant Land	Investment property included in PPE	1,779,776		Financial and performance systems
Community assets	Investment property included in PPE		1,779,776	Financial and performance systems
Horseshoe and Peoples Housing	Interest earned not recognised	792,281		Financial and performance systems
Accumulated surplus	Interest earned not recognised		792,281	Financial and performance systems

9. The following material misstatements arose from a difference between the disclosures in the financial statements and the disclosures required by the financial reporting framework.

Material misstatements		Amount R	Internal control deficiency
Financial statement line item	Reason for misstatement		
Current service and interest costs on post retirement benefits	Required disclosure not performed	976,440	Financial and performance systems
Fruitless and wasteful expenditure	Required disclosure not performed	16,997	Financial and performance systems
Irregular expenditure	Required disclosure not performed	478,136	Financial and performance systems

MATTERS TO BE DRAWN TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Basis of accounting and amendments to the applicable basis of accounting

10. The municipality implemented GRAP during the year ending 30 June 2010, and its financial statements are presented on GRAP standards for the first this year.

Significant uncertainties

11. There were no significant uncertainties noted at reporting date.

Restatement of corresponding figures

12. The corresponding figures were restated due to change in the applicable reporting framework to GRAP from entity specific accounting basis (IMFO).

Unauthorised / fruitless and wasteful / irregular expenditure

13. As disclosed on note 41.1 to the financial statements, the municipality incurred fruitless and wasteful expenditure due to late submission of tax returns amounting to R33, 084 that was condoned by the council during the year. Furthermore, fruitless and wasteful expenditure of R16 997 was incurred for salary overpayments not recovered.
14. As disclosed in note 41.2 to the financial statements, irregular expenditure to the amount of R478 136 was incurred, as a proper supply chain management process had not been followed and awards were made to entities owned by persons in the service of the state.

Material losses (through criminal conduct) / impairments

15. The municipality suffered a significant electricity loss of 17,902,219.14 kilowatts with a value of R5,370 million during the year under review.

Material under spending of the budget

16. No material under-spending of the budgets were noted.

Funding of operations / financial sustainability / Going concern

17. No funding, financial sustainability and going concern issues were noted.

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Prior year audited by a predecessor auditor

18. No predecessor auditor was involved in this audit in the prior year as it was performed by the Auditor- General.

Material inconsistencies in other information included in the annual report

19. The draft annual report will be assessed for inconsistencies with the audited information.

Unaudited supplementary schedules

20. The Greater Kokstad Municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

21. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. I have not audited this / these schedule(s) and accordingly I do not express an opinion thereon.

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS**REPORT ON PREDETERMINED OBJECTIVES**

22. Included below are the findings resulting from the audit of the report on predetermined objectives.

Non-compliance with regulatory requirements

23. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Presentation of reported performance information

24. No matter to report.

Timeliness of reported performance information

25. No matter to report.

Usefulness of reported performance information

26. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Inadequate content of integrated development plan

27. The integrated development plan of the municipality did not include the performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Reliability of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

28. The following audit findings relate to the above criteria:

Reasons for major variances between planned and actual reported targets were not explained

29. Adequate explanations for major variances between the planned and the actual reported targets for the selected programmes were not reported as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances had no explanations for those variances.

Planned and reported indicators and measures not well defined

30. For the selected programmes, 100% of the planned and reported indicators and measures were not well defined in writing to allow for data to be collected consistently.

Other matters

Internal auditing of performance measurements (predetermined objectives)

31. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45 of the MSA and regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.

COMPLIANCE WITH LAWS AND REGULATIONS

Included below are the findings related to material non-compliance with the acts as indicated.

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

Prohibited actions

32. There were no prohibited actions noted.

Non adherence to requirements

33. Contrary to the requirements of section 62(1)(d) of the MFMA, the accounting officer did not prevent the municipality from incurring fruitless and wasteful expenditure and irregular expenditure.

34. Contrary to the requirements of section 65(2)(e) of the MFMA, the accounting officer did not ensure that the invoices or statements were paid within 30 days receipt of such invoices and statements.

Supply Chain Management regulations, 2005 (GNR.868 of 30 May 2005) (SCM Regulations)

35. Irregular expenditure was incurred due to supply chain management (SCM) processes not being followed, in contravention of regulation 12 and 16 of the SCM Regulations.

36. Contrary to the requirements of regulation 44 of the SCM Regulations, the municipality made awards to entities whose owners were in the service of the state.

INTERNAL CONTROL

Internal control table

Included below is a table which indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The reasons for this assessment are discussed below.

Fundamental of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"
Leadership				
• Oversight responsibility	Yes	No	No	Yes
• Tone at the top	Yes	Yes	Yes	Yes
• Action to mitigate risks	Yes	No	Yes	Yes
Financial and performance management				
• Quality reliable AFS	Yes	No	No	Yes
• Proper record keeping	Yes	Yes	Yes	Yes
• Adequate systems	Yes	No	No	Yes
Governance				
• Risk identification	Yes	No	Yes	Yes
• Fraud prevention	Yes	Yes	Yes	Yes
• Internal audit	Yes	Yes	Yes	Yes
• Audit committees	Yes	Yes	Yes	Yes

Achievement of internal control objectives

37. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations

Leadership

38. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of ensuring that the financial statements were free from material errors and omissions as required by the MFMA. Actions were not taken to address risks relating to the achievement of complete and accurate financial reporting; as a result material misstatements were identified on the financial statements.

Financial and performance management

39. The financial statements and performance information were subject to material amendments resulting from the audit due to poor financial management systems to detect material errors.

Governance

40. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives to ensure compliance with laws and regulations.

Remedial action taken on audit outcomes of prior years

41. The improvement in the audit outcomes from the previous year can be attributed to the following:

- Leadership
Management appointed the internal auditors to improve internal control processes. Compliance with laws and regulations was improved.
- Financial and performance management
GRAP was implemented as required by Treasury.
- Governance
The audit committee did review performance results from predetermined objectives on quarterly basis as required by the MFMA and MSA.

OTHER REPORTS

INVESTIGATIONS

Investigations in progress

42. No investigations were in progress at reporting date.

Investigations completed during the financial year

43. An investigation on fleet card utilisation was conducted during the year, no actions were taken against the transgressors based on the legal advice that the municipality obtained after receiving the investigation report.

Performance audits

44. No performance audits were conducted.

Agreed upon procedures engagement

45. No agreed upon procedures were undertaken during the year.

Donor funding

46. No donor funding audits were conducted during the year.

Special audits

47. No special audits were conducted during the year.

INFORMATION TECHNOLOGY SYSTEMS**Change control**

48. No matters to report.

IT Governance

49. Proper oversight was not exercised over IT environment as there is currently no IT steering committee in place to oversee all IT related matters.

Security management

50. No matters to report.

User access control

51. Weaknesses were noted in the user access control to the IT system as there is no password masterfile in place that is access controlled by restrictive access levels.

IT Service Continuity

52. IT service is managed by Dimension Data and the relationship with this service provider is monitored through a service level agreement in place. However, there is no IT strategy in place except for the IT use policy which may not be sufficient to address all IT risks in times of disasters and unforeseen emergencies.

Facilities and environmental control

53. No matters to report.

SPECIFIC FOCUS AREAS**Significant findings from the audit of Procurement and contract management**

54. Our audit included an assessment of procurement processes and contract management with a specific focus on conflict of interest; avoiding abuse of the supply chain management (SCM) system; and compliance with the MFMA, Preferential Procurement Framework Act, Preferential Procurement Regulations (PPR), SCM practice notes (P/N) issued by the National Treasury, and the municipality's SCM policy.

The table below provides a summary of our findings:

Detail	Findings		Limitations	
	#	R- value	#	R- value
Price quotations				
Deviations from competitive bidding were approved on the basis of it being an emergency, even though proper planning would have prevented such emergency and deviations from competitive bidding were approved on the basis of the goods and services only being produced by, or available from, a sole service provider even though a thorough market analysis was not performed to substantiate this and/or a transparent and equitable pre-selection process was not followed.	20	478,136		
Other findings				

Detail	Findings		Limitations	
	#	R- value	#	R- value
Awards were made to the entities owned by persons in the service of state.	4	204,001		

DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS

LEADERSHIP

Oversight responsibility over reporting

55. The accounting officer did not exercise oversight of ensuring that the irregular, fruitless and wasteful expenditure was not incurred by the municipality. Those charged with governance did not exercise their responsibility of ensuring accurate and complete financial reporting; as a result material misstatements were noted from the audit that needed to be adjusted for after the financial statements were submitted to the auditors.

Availability of key personnel

56. Key personnel were available throughout the audit.

Adequacy and competence of personnel responsible for reporting

57. No matters were noted.

Integrity and ethical behaviour

58. No integrity and ethical behavioural concerns by municipality officials were noted.

Implementation of appropriate key controls (policies and procedures)

59. The municipality has developed and implemented key policies and procedures. However, the municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

FINANCIAL AND PERFORMANCE MANAGEMENT

Adequacy of systems preparation of the financial statements and the report on predetermined objectives

60. The municipality did not have reliable information systems for recording and reporting on:

- Contingent liabilities

Accounting discipline

61. No matters were noted.

Accounting policies, estimates and disclosures

62. No matters were noted.

Budget process and measurement and achievement

63. No matters were noted.

Availability of expected information (both financial and performance)

64. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within two working days of the request by the auditors. Despite this agreement, management submitted the documentation requested not within the agreed timelines in the following instances:

- ID numbers of the Councillors, their spouses and close family members,
- ID numbers of the municipal officials, spouses and their close family members,
- ID numbers of those charged with governance, their spouse and their close family members.
- Request number 1 submitted on 8 July 2010, information received 2 August 2010.

Late submission of financial statements and report on predetermined objectives

65. Financial statements and report on predetermined objectives were submitted on time.

Related party transactions

66. The municipality has not implemented controls to:

- identify, account for and disclose related party relationships and transactions in accordance with the Standards of GRAP.
- authorise and approve significant transactions and arrangements with related parties.

GOVERNANCE

Risk identification and management

67. Legislation requires that a risk assessment be conducted on a regular basis and that a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA. Consequently, a number of control deficiencies were identified. These include a failure to:

- Ensure that the financial statements submitted were free of material misstatement and fairly present the state of affairs of the municipality.

Fraud prevention, detection and response

68. No matters were noted.

Internal audit

69. No matters were noted.

Audit committee

70. No matters were noted.

REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS

Actions taken by management and those charged with governance to address matters previously reported

71. Management has appointed internal audit firm to perform internal audit function, and developed the fraud prevention plan. However, VAT accounting which was reported in the prior year has not been completely addressed.

Progress on undertakings given by the Legislature, Portfolio committees and other oversight bodies to address matters previously reported

72. No matters from the legislature and portfolio committees relating to 2010 financial year were to be addressed.

Status of Oversight resolutions

73. No oversight resolutions to be implemented for the 2010 financial year.

MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR

Accounting and compliance matters

74. No accounting and compliance matters that may affect the municipality audit report in the coming year.

Susceptibility of assets or liabilities to loss or fraud

75. No matters were noted.

Subsequent events

76. The municipality does not have written procedures and policies to identify and count for subsequent events.

Other

77. No other matters were noted.

RATINGS OF DETAILED AUDIT FINDINGS

78. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report.
These matters should be addressed as a matter of urgency.
- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.
These matters should be addressed within the next 12 months.
- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.
These matters should be addressed at the discretion of the entity.

79. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely

Sandile Mnguni
Senior Manager: KwaZulu-Natal

Enquiries: Malusi Shezi
Telephone: (033) 264 7400
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Distribution:

The Honourable Mayor
CFO
Audit committee
Head of internal audit

SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
40	Financial statements weaknesses noted	✓						✓				
41	Documentation placed on website not in compliance with S75			✓				✓				
Cash and cash equivalents												
42	Incorrect bank reconciling items				✓			✓		✓		
Employee costs												
17	Overpayment of salaries and no recoveries made				✓		✓					
30	Councillors in arrears			✓			✓					
Operating expenditure												
19	Supply chain management irregularities were noted	✓		✓			✓					
23	Invitations approved without three quotations			✓			✓					
22	Awards were made to the entities owned by people in the service of state				✓			✓		✓		
28	Electricity losses not disclosed on the financials				✓				✓			

43	Non-compliance with the Preferential Procurement Policy Framework Act			✓			✓					
Performance information												
30	Non-compliance weaknesses in performance management (Predetermined objectives)		✓				✓					
38	Matters of Governance				✓		✓					
Receivables												
24	Discounting of financial assets and liabilities and provision for doubtful debts not properly accounted for on the financial statements	✓					✓					
Related parties												
26	Inefficiency in the process and procedures to identify and account for related party and related party transactions and subsequent events				✓		✓					
Revenue												
29	Insufficient information on the Valuation Roll				✓		✓					

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

EMPHASIS OF MATTERS

Employee costs

1. Overpayment of salaries and no recoveries made

Audit finding

1. Excess payment of salaries

Section 62 (1)(a) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically".

Section 62 (1) (c) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems (i) of financial and risk management and internal control".

Section 62 (1) (d) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented".

Section 171 (1) of the MFMA states that "The accounting officer of a municipality commits an act of financial misconduct if that accounting officer deliberately or negligently makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure".

1. During the audit of employee costs -deceased employees' final salary payment, it was noted that two employees (details below) were paid their salary for the remainder of the month after their death.

Per discussion with Mandisa Vika (payroll administrator) and Tera Eksteen (Human Resources), it was indicated that it is the Municipality's practice to apportion the employees' salary based on the number of days worked by them in that salary month. However this was not performed for the deceased employees below"

#	Employee number	Date of Death	Basic Salary	Extra Days	Overpayment
1	S009548	10/8/2009	4,173.53	11	2,086.77
2	S010023	9/8/2009	4,173.53	12	2,276.47

2. During the audit of employee cost, it was noted that an employee was paid an amount in excess of what was owed to her. The variance relates to the encashment of leave paid over to employee number S010792 due to her resignation processed by M.Vika (Payroll administrator).

Amount calculated (R30 256.80 / 22 Average days * 27 Days leave due)	R37, 133.35
Amount paid out	R39, 883.93

Difference (Excess Paid)

R2, 750.58

This misstatement is due to human error resulting in misstatement of the salary and wages expense. The Municipality has made a payment in excess of the amount owed by them; this will result in the Municipality incurring financial loss resulting in the fruitless and wasteful expenditure being incurred.

(b) Non-recovery of amount owed by terminated employee

In terms of section 62 (1) of the MFMA "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure (a) that the resources of the municipality are used effectively, efficiently and economically;"

During the audit of Employee Cost terminations, the following was noted:

Legal action was supposed to be taken against an employee (N Cola), R11, 696 was to be recovered from N Cola, and this is for a laptop assigned to her that was not returned upon her termination. Her final salary amounted to R4,609 (after tax), all of which was deducted as repayment. The remainder (R7,087) was to be recovered through legal action against her; however no steps/action was/has been taken to recover such amount.

This may have resulted in the Municipality incurring a financial loss resulting in the fruitless and wasteful expenditure that is not yet disclosed on the financial statements.

Internal control deficiency

Ongoing monitoring and supervision by internal audit was not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting, hence there is no procedure to address this risk and this misstatement has gone undetected. Also the systems were not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff, as there was no Municipality policy giving specific guidance on this matter at the time. A remuneration policy has however come into effect subsequent to this financial year (September 2010).

Inadequate financial management systems that resulted in manual or automated controls were not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

Recommendation

Management should investigate all employee terminations to identify any other incidences where this error may have occurred, and should adjust salaries expense accordingly. Management should put in further procedures to ensure all staff debt and other amounts owed by employees are recovered on a monthly basis, and the total outstanding balance recovered before the employee leaves/is terminated.

Management should also compile human resource and payroll policies to give guidance on such situations. All complex salary calculations should be reviewed by a member of management, before payouts are made. Management should recover the excess amounts paid from the employees concern or from the municipal official who processed these transactions as per section 171 of the MFMA.

Management response

Management has investigating the matter, necessary disclosure as fruitless and wasteful expenditure will be made in the Annual Financial Statements for excess or over payment of R5,546.89 for leave payout in respect of 8 employees (schedule thereof is attached).

The account as a way of recovering the amount due to the municipality has been opened and legal action as means of debt collection will be instituted. The account statement issued is attached. Further to this, the amount of R7,087 will be disclosed as fruitless and wasteful expenditure. Miss Ndileka Cola is to sign an acknowledgement of debt.

Name: L. NDZELU

Position: CFO

Date: 31 OCTOBER 2010

Auditor's conclusion

The disclosure made on the financial statements and an emphasis of matter will be included in the audit report.

Operating expenditure

2. Supply chain management irregularities were noted

Audit finding

Section 62 (1)(a) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically". Section 62 (1) (c) of the MFMA states that "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems (i) of financial and risk management and internal control".

Regulation 16 states that a supply chain management policy must stipulate the conditions for the procurement of goods or services through written or verbal quotations, which must include conditions stating (d) that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices, and (e) that if the quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider. Regulation 36 (1)(deviation from and ratification of minor breaches of procurement processes) state that "a supply chain management policy may allow the accounting officer (a) to dispense with the official procurement process established by the policy and to procure any required goods or services through any convenient process, which include direct negotiations but only-

- (i) In an emergency;
- (ii) if such goods or services are produced from a single provider only;
- (iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;
- (iv) Acquisition of animals for zoos, or
- (v) In any other exceptional case it is impractical or impossible to follow the official procurement process and
- (b) to ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature".

Emergency means immediate action was necessary in order to avoid a dangerous or risky situation or misery or disaster such as floods and fires. Impractical/ impossible means, although it occurs only in exceptional circumstances; that an urgent need making it impractical to follow process, provided that circumstance for urgency was not foreseeable and did not result from negligence or improper and poor planning.

Regulation 36(2) states that "the accounting officer must record reasons for any deviation in terms of subregulation (1)(a) and (b) and report them to the next meeting of the council and include as a note to the annual financial statements".

Section 1 of the MFMA states that "irregular expenditure", in relation to a municipality or municipal entity, means—

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the

definition of "unauthorised expenditure". Section 1 of the MFMA also defines "fruitless and wasteful expenditure" as "expenditure that was made in vain and would have been avoided had reasonable care been exercised".

Section 65(2)(e) of the MFMA states that " that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure".

The following weaknesses were noted on SCM process during the test of trade and other payables:

1. Deviations from SCM were noted whereby no 3 quotes were obtained and no motivations were approved by the accounting officer.

2. Some payments which are part of 1 above were not settled within 30 days of invoice receipt.

GL date	Description	Amount per GL	Amt per invoice	Notes
DEVIATION FROM SCM REGULATIONS				
15-Jun-10	Creditor : 08885 GRAINFOODS DISTRIBUTION CC	6,121.04	6,121.04	a
17-Jun-10	Creditor : 08890 TOLIKA/TRANSLATE CC	46,515.60	46,515.60	b
18-Jun-10	Creditor : 04734 UDIDI PROJECT DEV CO.	27,950.09	27,950.09	d
10-Jun-10	Creditor : 08591 AFRICA GOVERNANCE TRANSFORMATI	53,580.00	53,580.00	f
25-Jun-10	Creditor : 04720 DIMENSION DATA (PTY) LTD	68,658.65	68,658.81	k
28-May-10	Creditor: 08600 DON'T BE SHY TRADING ENT.	8,560.00	8,560.00	l
14-May-10	Creditor : 08567 F SOUND ENTERTAINMENT	4,000.00	4,000.00	m
2-Jun-10	Creditor : 08853 GABHISAS'SPORTS	5,192.00	5,192.00	p
26-Jan-10	Creditor : 08838 PROTHATCH	17,500.00	17,500.00	u
29-Jun-10	Creditor : 08851 QANTAMA FUNERAL SERVICES CC	1,797.60	1,797.60	v
23-Jun-10	Creditor : 08878 SITHISONKE TRADING CC	1,050.00	1,050.00	w
27-Jul-10	EFT901183	169,860.00	169,860.00	N2
28-Jul-10	52874	5,737.50	5,737.50	N22
		416,522.48	416,522.48	
NOT PAID WITHIN 30 DAYS				
15-Jun-10	Creditor : 08885 GRAINFOODS DISTRIBUTION CC	6,121.04	6,121.04	a
30-Jun-10	Creditor : 01834 WALTONS STATIONERY CO LTD	22,182.62	22,182.62	e
7-Jun-10	SISONKE DISTRICT MUNICIPALITY	127,223.15	127,223.15	N27
1-Mar-10	CICS	21,851.24	21,851.24	N30
		171,257.01	171,257.01	

Notes

A- Flour and ingredients for bakery project, GRV #007663 signed received 15 May 2010 per invoice # 1027727. No 3 quotes only 2 obtained and reasons were not documented. Overdue amount at year end exceeding 30 days

b -Translation of By-Laws to IsiXhosa. Invoice #1 dated 16 June 2010; No GRV attached and the member of this CC is a government employee working for Cape Town municipality. No quotes, no motivation was attached to this document. Awarded to a state official as works for City of Cape Town.

d- Spatial referencing for capital projects, invoice 1344/2010 received 18 June 2010 and GRV #007705 signed 24/6/2010. Only 2 bids: Udidi and Isibani Planning Consultants; No 3 quotes

f -Invoice # KW251 dated 8 June 2010 for R29,640 and # KW 252 dated 8 June 2010 all received 10 June 2010. For ward committee training only 2 quotes were obtained and no motivation

(R23,940) and for municipal officials 3 obtained. NB: There should have been a one quote obtaining process but split into 2 as training was provided within 2 consecutive weeks.

k- Invoice 90487091 date 8 April 2010, #90501396 dated 30 June, and #90498292 dated 11 June 2010. No 3 quotes or motivation attached.

l- Invoice #0130, 2 quotes from Don't be Shy and Signwise; no other or motivation by SCM official and approved by CFO.

m- No invoice number; no 3 quotes obtained and no motivation prepared and approved.

p Invoice number 9054, motivation is not signed by the CFO and approved by Council for deviation as the other 3 suppliers did not respond to quote request as per motivation.

u -Invoice with no number, company registration number and physical address. Received 29 January 2010 and paid on the same date by EFT.

v -No 3 verbal quotes and no motivation was attached.

w -No 3 verbal quotes and no motivation were attached.

N2- Appointed 12 May 2010 and invoice received 13 July 2010; dated 1 July 2010 means work done before year end. No 3 quotes or motivation.

N22- Nandos Kokstad for catering for Greater Kokstad Local Football association on 16 July 2010, after year end. No three verbal quotes or motivation attached.

e -Stationery amount unpaid at YE. Statement dated 30 June 2010 shows R6, 623.29 over 60 days overdue. Invoices # PSH 089119SI and PSH089394SI were received on 20 and May 2010 respectively and were over 30 days due at year end.

N27 -Various invoices dated 6 June 2010. Not paid within 30 days as not stamped when was received.

N30- Invoice number IN52989. Not paid within 30 days.

The above indicates irregular expenditure incurred during the year, excluding late payments.

Internal control deficiency

Those charged with governance did not prevent the municipality from incurring irregular and fruitless and wasteful expenditure.

Recommendation

Management should investigate the population of items bought through procurement and ensure that where the SCM process was properly followed, they are disclosed as irregular or fruitless and wasteful expenditure on the financial statements.

Management response

Management has investigated the finding and agrees with the finding which the response is amended as follows,

1. Payments not done within 30 days R197, 978.
2. The payment amounting to R169, 860 for Born and Bread was done regularly in line with policy where 3 quotations were requested.

Based on the above, the management accepts the findings on non compliance with supply chain management regulations and policy on expenditure amounting to R198, 238.40 and this will be disclosed in the Annual Financial Statements as irregular expenditure. Further to this an amount of R204, 001.28 will also be added as irregular expenditure due to the awards done on suppliers in the service of the state. The total amount to be disclosed as irregular expenditure will total to R427, 334.72.

Name: L Ndzelu

Position: CFO

Date: 8/11/2010

Auditor's conclusion

An emphasis of matter will be included in the audit report.

3. Awards were made to entities who are owned by state officials

Audit finding

Regulation 1 of the MFMA SCM regulations defines “in the service of state” to mean to be –

- (a) A member of (i) any municipal council;(ii) any provincial legislature; or (iii) the National Assembly or the National Council of Provinces;
- (b) A member of the board of directors of any municipal entity;
- (c) An official of any municipality or municipal entity;
- (d) An employee of any nation or provincial department, national or provincial public entity of constitutional entity within the meaning of PFMA,1999 (Act No.1 of 1999);
- (e) A member of the accounting authority of any national or provincial public entity; or
- (f) An employee of Parliament or provincial legislature.

Regulation 44 (Prohibition on awards to persons in service of the state) states that “The supply chain management policy of a municipality, irrespective of the procurement process followed, state that the municipality may not make any award to a person-

- (a) Who is in the service of state;
- (b) If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state;
- (c) Who is an advisor or consultant contracted with the municipality or municipal entity”.

The above requirements are indicated in the GKM SCM policy and the declaration form does have part where the potential supplier can indicate if he/she is in the service of state.

It was noted during the search performed on the owners of companies listed on the municipality's database that the following companies had its owners being in the service of state and were awarded works amounting to R157,486. in total for the 2010 financial year.

ENT_N O_DIR	ENT_NA ME	NAMES	ID_NO _DIR	APP OINT DAT	DEPT_ENTIT Y	MEMB ER_STA TUS	ME MSIZ EINT	ENTITY _STAT US	Amount Awarde d 2010
2004/ 11818 9/23	IC Solutions	Ismail Carr	72012 75080 080	18/1 1/20 04	State Theatre	Active	100	Deregis tration Process	119,579
2005/ 03741 9/23	Bhekaph ambili Trading	Lungile Princess Khumalo	80011 20586 086	01/0 4/20 05	Kwazulu Natal: Health & Culture	Active	25	In Busines s	20,057
2006/ 08975 7/23	Luhlaziyo Trading	Glendae Josslyn Elveena Bergover	87050 50194 089	14/0 4/20 08	South African Police Service	Active	100	In Busines s	17,850

157,486

For IC Solutions Ismail Carr was not included in the declaration provided to the municipality and for Bhekaphambili Trading no declaration could be provided.

For Luhlaziyo Trading, the owner is also indicated in the declaration inspected. This is considered fraudulent activity and should be reported to the National Treasury and amounts paid should be recovered where necessary.

Internal control deficiency

The accounting officer did not develop procedures to combat abuse of supply chain management system and did not have procedures to independently verify information provided by the potential suppliers in order to comply with laws and regulations related to SCM regulations.

Recommendation

It is recommended that the municipality develop and implement procedures to independently verify information provided by potential supplier before awards are made. Those charged with governance should investigate the above irregularities and have these amounts disclosed as irregular expenditure.

Management response

Awards to State Official – the exception is noted and the expenditure will be disclosed as such as recommended by auditors. Further to this an amount of R204, 001.28 will also be added as irregular expenditure due to the awards done to suppliers in the service of the state.

Name: Lihle Ndzelu

Position: Chief Finance Officer

Date: 16 November 2010

Auditor's conclusion

Disclosure of the amount will be inspected on the revised AFS and emphasis of matter be reflected on the audit report accordingly.

4. Invitations approved without three quotations

Audit finding

In terms of Supply Chain Management (SCM) regulations 12(1)(c) "A SCM policy must provide for procurement of goods and services by way of formal written price quotations for procurements of a transaction value over R10 000 up to R200 000 (VAT included)".

In terms of SCM regulations 17(1)(a) and (b) quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality or if not from the list, from providers that meet the listing criteria in the SCM policy.

In terms of SCM regulations 17(1)(c) if it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the CFO or his designate.

The following deviations were approved for the invitations of less than three written price quotations from accredited prospective providers or providers that meet the listing criteria even though it was possible to comply with the requirement:

Date	Invoice Number	Supplier Name	Amount
none	none	World Power Trading	R24 984.00
Total			<u>R24,984.00</u>

Possible irregular expenditure.

Internal control deficiency

Management did not exercise oversight responsibility in ensuring that the municipality complies with the provisions of The Supply Chain Management Policy.

Recommendation

Management should ensure that its monitors adherence to the supply chain policy.

Management response

The finding is noted and sometimes when the supplier is a sole supplier of the required services, the motivation explaining that is required from the requesting department and CFO approves

procurement of such on the receipt of detailed explanation that the other cannot be secured. Hence the motivation from the Municipal Manager was submitted to auditors. Therefore if not accepted by auditors, then the amount of R24, 984.00 will be disclosed as irregular expenditure.

Name: L Ndzelu

Position: CFO

Date: 08/11/2010

Auditor's conclusion

A deviation was not supported by the market analysis to prove that it is a sole supplier, therefore the amount is irregular expenditure to be disclosed on the financial statements. This will be included in the emphasis of matter on the audit report.

Receivables

5. Discounting of financial assets and liabilities and provision for doubtful debts not properly accounted for on the financial statements

Audit finding

Section 63 (2)(b) of the MFMA states that "The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice".

IAS 39 paragraph 9 defines loans and receivables as non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. Financial assets carried at amortised cost".

IAS 39 paragraph 43 indicates that "when a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability". IAS 39 paragraph 63 states that "if there is objective evidence that an impairment loss on loans and receivables or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss".

Impairment and uncollectibility of financial assets

IAS 39 paragraph 58 states that "an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available for sale financial assets) to determine the amount of any impairment loss". IAS 39 paragraph 59 states that "objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events (a) significant financial difficulty of the issuer or obligor; (b) a breach of contract, such as a default or delinquency in interest or principal payments; (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; (d) it becoming probable that the borrower will enter

bankruptcy or other financial reorganisation; (e) the disappearance of an active market for that financial asset because of financial difficulties; or (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
- (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group)".

IAS 39 IN21 states that "the Standard provides additional guidance about how to evaluate impairment that is inherent in a group of loans, receivables or held to maturity investments, but cannot yet be identified with any individual financial asset in the group, as follows:

- An asset that is ***individually assessed for impairment and found to be impaired*** should not be included in a group of assets that are collectively assessed for impairment.
- An asset that has been ***individually assessed for impairment and found not to be individually impaired should be included in a collective assessment of impairment***. The occurrence of an event or a combination of events should not be a precondition for including an asset in a group of assets that are collectively evaluated for impairment.
- When performing a collective assessment of impairment, entity groups assets by similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.
- Contractual cash flows and historical loss experience provide the basis for estimating expected cash flows. Historical loss rates are adjusted on the basis of relevant observable data that reflect current economic conditions.
- The methodology for measuring impairment should ensure that an impairment loss is not recognised on the initial recognition of an asset".

On review of the accounting policy notes to the financial statements; it was noted that the municipality accounting policy is to account for financial assets and liabilities in terms of IAS 39. However, the following weaknesses were noted which indicated that this accounting treatment was not as per IAS 39:

1. It was noted that the amount of bad debts provision raised was based on the 120 days overdue debtors and not specifically assessed per individual debtor as required by IAS 39. IN21 on which the municipality's accounting policy refers in the notes to the financial statements taking into account the payment pattern of each individual debtor.
2. The trade receivables were not recognized at fair value as there is no evidence that the discounting of receivables to their fair values were performed or considered by management.
3. The financial liabilities as well, were not discounted to their present values.

Internal control deficiency

The leadership of the municipality did not discharge its responsibility of ensuring that the financial statements were free from material errors and omissions and compliant with the applicable reporting framework as required by the MFMA.

Those charged with oversight and internal controls were not effective in detecting these omissions before the financial statements were finalized.

Recommendation

Management should improve and strengthen controls over the financial statements preparation, review and approval process to ensure accurate and appropriate financial reporting resulting in the fair presentation as required by the standards of GRAP.

Management should consider adjusting the financial statements for the results of omissions noted above by ensuring that all applicable standards are effectively implemented. Management should retain evidence that they have considered the impact of present valuing the financial assets and liabilities at initial recognition and at subsequent measurement dates for financial reporting purposes.

Management response

Management has noted the finding the auditors recommendations are noted and will be implemented moving forward as the exercise require plenty time to complete and in terms our methodology used of 120 days the management understands the impairment provision raised is not directly aligned to the requirements of IAS 39, however at high level we believe that individual debtor examination will lead to a similar impairment bases value. The provision which has been done has been based on all debtors per debtor's age analysis which is detailed as per individual debtor and this has been provided to auditors. Further to this, council will make any write off of debtors as debt collection policy and by law allows the attachment of the property on failure to settle the debt by the debtor. All municipal accounts are linked to houses owned by the debtors.

Name: L. NDZELU

Position: CFO

Date: 31 October 2010

Auditor's conclusion

The matter is reportable and implementation of the recommendation will be assessed during 2011 financial year audit.

Related parties and subsequent events

6. Inefficiency in the process and procedures to identify and account for related party and related party transactions and subsequent events

Audit finding

Section 62(1) of the MFMA states that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

((b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

(c) that the municipality has and maintains effective, efficient and transparent systems—

(i) of financial and risk management and internal control; and

(ii) of internal audit operating in accordance with any prescribed norms and standards".

Paragraph 4 of IPSAS 20 defines related party parties as "to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:

(a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;

(d) Key management personnel, and close members of the family of key management personnel; and

(e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence".

Paragraph 4 of IPSAS 20 defines related party transaction as "a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part". The same paragraph defines significant influence (for the purpose of this Standard) as "the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement".

Paragraph 19 of IPSAS 20 states that "Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes and enables users to better understand the financial statements of the reporting entity because:

- (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;
- (b) Related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of the relationship; and
- (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently in government departments and agencies where goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments and individual public sector entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another".

Paragraph 20 of IPSAS 20 states that " Disclosure of certain types of related party transactions that occur and the terms and conditions on which they were conducted allow users to assess the impact of those transactions on the financial position and performance of an entity and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties". Paragraph 25 of IPSAS 20 further states that "Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties".

Disclosure of Related Party Transactions

Paragraph 27 of IPSAS 20 states that "In respect of transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, the reporting entity should disclose:

- (a) The nature of the related party relationships;
- (b) The types of transactions that have occurred; and
- (c) The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes".

1. The municipality did not have developed and implemented procedures and policies to identify, account and disclose the related party relationships and transactions and account balances.

2. The municipality did not have the written policies and procedures for accounting and identifying subsequent events or events after the reporting date as per requirements of GRAP 14.
3. As a result, audit could not perform CIPRO search for related party transactions on the Audit Committee members as a result of a late submission of their identity document (ID) numbers, their spouse, children and other close family members: Ms N. Shabalala – Chairperson, Mr A Jordaan and MR S Mjoli.

Internal control deficiency

Manual and automated control procedures were not developed to ensure that the entity can identify and measure the risk of related party transactions, identify and account for related party transactions and subsequent events and disclose those transactions and events on the financial statements.

Recommendation

Management should develop procedures to identify and account for related party relationships and for transactions with those related parties and for accounting for subsequent events.

Management should also disclose related party transactions and balances on the financial statements with the terms and conditions for those transactions and balances as required by IPSAS 20.

Management response

The finding is noted and moving forward this will be corrected. Due to some communication breakdown with members the delays were experienced on forwarding the requested information by auditors.

Name: L Ndzelu

Position: CFO

Date: 2 November 2010

Auditor's conclusion

Development and implementation of the process and procedures to identify and account for related parties and transactions and subsequent events will be assessed during 2011 audit.

7. Electricity losses disclosed on the financial statements

Audit finding

Section 122(1)(a) of the Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) states, "Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year".

Paragraph 18 of the Standard of Generally Recognised Accounting Practice (GRAP) 1 states that "Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation."

However, it was noted during the audit that there was no disclosure note on electricity losses of 17,902,219.14 kilowatts incurred amounting to R5, 370,665.74.

Internal control deficiency

Lack of oversight by those charged with governance and the audit committee to ensure that financial statements are properly reviewed for accuracy and completeness.

Recommendation

The accounting officer should revise the financial statements to reflect accurate figures both on the notes and the face of the financial statements components.

Management response

The finding is noted and the management believes that, the schedule submitted to auditors was incorrect and was not authorised by management as it has many errors and reflects kilowatts which are not correct as a loss. Hence the management has forwarded the correct schedule to auditors and disclosed as such to Financial Statements.

Name: L Ndzelu

Position: CFO

Date: 16 November 2010

Auditor's conclusion

Emphasis of matter will be included in the audit report.

8. Insufficient information on the Valuation Roll**Audit finding**

Section 23(1) of the Municipal Property Rates Act of South Africa (Act No.6 of 2004) (MPRA) states that " a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of Part A and Part B".

Section 23(3) of the MPRA states that "Part B of the register must specify which properties on the valuation roll or supplementary roll are subject to-(a) an exemption from the rate in terms of section 15; (b) a rebate on or a reduction in the rate in terms of section 15;(c) a phasing-in of the rate in terms of section 21 or (d) an exclusion referred to in section 17(1)(a)(e),(g),(h), and (j)".

It was noted during the audit that municipality did not perform the valuation roll reconciliation apart of its internal control processes as required by the laws and regulations.

Internal control deficiency

Manual or automated controls were not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. The leadership of the municipality did not ensure that all the required processes of good governance and internal controls were performed throughout the year.

Recommendation

Management should update their valuation roll to include Part B and ensure that the reconciliation of the valuation roll is performed, reviewed and approved.

Management response

The findings are noted by management. The valuation roll finding will be discussed with the Municipal Valuer.

Name: L.NDZELU

Position: CFO

Date: 31 OCTOBER 2010

Auditor's conclusion

No evidence that the valuation roll has been updated and this will be reported.

9. Councillors' accounts in arrears

Audit finding

Section 12 A of the Municipal Systems Act No. 32 of 2000 requires that "A councillor may not be in arrears to the municipality for rates and service charges for a period longer than three (3) months" Contrary to the requirement set out in Section 12 A, the following councillors were found to be in arrears for more than three (3) months.

Councillors	R
N. Mavuka	9 779.00
T.N. Jojozi	3 289.00
J.J. Mhlongo	4 175.00
M. White	3 388.00
F. Rodgers	7 565.00
Total arrears	28 196.00

Internal control deficiency

Lack of ongoing monitoring were not undertaken timeously to enable early recovery of outstanding rates and service charges from the Councillors to ensure adherence with Section 12 A of the Municipal Systems Act No. 32 of 2000.

Recommendation

Management should constantly monitor Councillor's arrear accounts and make early recoveries from those owing to ensure compliance with Section 12A of the Municipal Systems Act No. 32 of 2000. Management should update the disclosure in the notes to the financials as to what actions were taken to address the non-compliance identified.

Management response

The auditor's findings are noted and all councillors arrears will be deducted from councillors salaries and the acknowledgement of debt will be entered into by council debt collection section.

Name: L Ndzelu

Position: CFO

Date: 16 November 2010

Auditor's conclusion

Implementation of the audit recommendation will be evaluated during 2011 audit..

Performance information

10. Non-compliance weaknesses in performance management (Predetermined objectives)

Audit finding

(a) Non-compliance with Sections 41(1)(d) and 46(1) of the Municipal Systems Act (MSA)

Per section 41(1)(d) of the Municipal Systems Act No. 32 of 2000, a municipality must in terms of its performance management system and in accordance with any regulations and guidelines that

may be prescribed take steps to improve performance with regard to those development priorities and objectives where performance targets are not met.

Section 41(1)(d) read together with Section 46(1) of the Municipal Systems Act No. 32 of 2000 further requires that " A municipality must prepare for each financial year a performance report reflecting-

- (a) the performance of the municipality and of each external service provider during the financial year;
- (b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
- (c) measures taken to improve performance.

(i) Performance of the external service provider not documented

Contrary to the requirement of Section 46(1)(a) of the Municipal Systems Act, performance of the below external service providers was not documented.

Source: Annual performance report (Page 32)

BID NUMBER	DESCRIPTION	SERVICE PROVIDER	DATE AWARDED	VALUE
19/09	In-house training for solid waste management	Inter-Waste/ Enviro – Fill Waste	21 st July 2009	R 169 290.00
14/08	Rehabilitation of Kokstad Phase 3	Pondo Civils CC / Dokose Construction CC JV	21 st July 2009	R 13 101 405.73
GKM 06/09	Supply & delivery of the Mayoral Vehicle	The Motique CC	21 st July 2009	R 382 034.04
GKM 07/09	Rehabilitation of Kokstad Phase 4	Xesibe Construction/ Anvisda Plant & Civils JV	30 TH September 2009	R 13 686 617.96
GKM 08/09	Internal Audit	Umnotho Business Systems	01 st March 2010	R 500 000.00
GKM 03/10	Security Management	1. Elite Security 2. Zincume Mangeni JV 3. Vulture Security 4. Caculama Private Inv	17 June 2010	R 6 11 859.48 R 6 26 400.12 R 5 18 399.76 R 4 54 667.76

(ii) Lack of documented comparisons of the performances

Reported predetermined objectives lacked documented comparisons of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year which was in contravention of the requirement set out in Section 46(1)(b) of the Municipal Systems Act.

(iii) Lack of documented measures taken to improve performance

There were no documented corrective measures to be taken to improve underperformance of the following shortfalls from achieving pre-determined targets as required by Section 41(1)(d) and 46(1)(c) of the Municipal Systems Act.

Source: Annual performance report

Development priorities/objectives	Performance measure/indicator	Timeframe	Target	Actual performance achieved
Rehabilitation of Kokstad Roads - Phase 3	To provide paved roads surface and solve problems regarding water remains	June 2010	3.5KM	Construction phase (96%)
Rehabilitation of Kokstad Roads - Phase 4	To upgrade the quality of roads in Kokstad	September 2010	4.5KM	Construction phase (49%)
Placing of Infrastructure in Bhongweni Home 2010	To design and prepare tender documents for provision of bulk services on 35 sites so that Council can sell to the public	June 2010	Thirty-five sites	Bid Committee decision pending (99%)
Programme Sixteen: Electricity				
Electrification - Shayamoya, Horseshoe and Area 5 and 6	Electrification of 280 RDP houses	Ongoing from January 2010	Two hundred and eighty (280)	Material has been ordered (10%)
Street lighting	Efficient street lightning	Ongoing from January 2010	One hundred and twenty (120)	Material has been ordered (10%)
Migration from Credit to Pre-paid Meters	All households to be on pre-paid meters	Ongoing from January 2010	Two hundred and sixty (260)	Material has been ordered (10%)
Bulk Meters	To have bulk meters at the transformers	Ongoing from January 2010	Ninety-five (95)	Material has been ordered (10%)
Kargs Post Refurbishment	To have new poles, cross arms, insulators and conductor. At least 90% to be installed by the end of the financial year	Ongoing from January 2010	Poles: 200 Cross-arms 200 11KV Insulators: 600 Aluminium Conductor: 60KM	Material has been ordered (40%)
Programme Seventeen: Housing				

Horseshoe Low Cost - Application for Transfer	Number of transfers completed by July 2009:147	Not applicable	147	Housing units built and occupied: 1447 Transfers completed: 1300 Transfers remaining: 147 The investigation report is now with the Municipality (95%)
Horseshoe Low Cost - Handing over of Title Deeds	By June 2010, 50% of the title deeds will have been handed to rightful owners	Not applicable	147	Housing units built and occupied: 1447 Transfers completed: 1300 Transfers remaining: 147 The investigation report is now with the Municipality (95%)
Makhoba Housing Units	Development approval obtained by September 2009. Surveying and registration of diagrams by October 2009. Construction of foundations by December 2009	Not applicable	1400	Conditional Application acquired. Environmental authorisation has been obtained. Development approval acquired. The implementing Agent is busy with the registering of beneficiaries. The DFA process has delayed the start of construction (25%)
Franklin	Development approval by August 2009. Surveying and registration of diagrams by September 2009. Construction of foundations by November 2009. Construction started by January 2010	Not applicable	450	Conditional Approval acquired. Environmental authorisation has been obtained. SG layout plan has been finalised. Project Link Subsidy approved. The initial plan from Spoornet has produced challenges with the transferring of assets to GKM. The gazetting of the Leftea application has been delayed and reported to be finalised by 29 June 2010. Beneficiaries registered to date: 404 (25%)

Willowdale	Sisonke confirm services completed by July 2009. Development approval by January 2010. Surveying and registration of diagrams by March 2010. Construction started by June 2010.	Not applicable	27	Offer to purchase land for housing development has been conducted by the Department of Land Affairs and landowners. The Municipality has re-negotiated with the landowners with the option to use the first land that was donated for the project. The landowner is willing to offer piece of land that is not as rocky as the first one, but would like to obtain the Department of Land Affairs' status on their offer to buy land (0%)
Slums Clearance project	Identification of all shacks by September 2009. Relocation of Lindelani to 236 sites by November 2009. Development Approval by March 2010. Surveying and registration of diagrams by June 2010	Not applicable	900	There are number of shacks that exist within municipality. Land for proper housing development is available. 26 houses have already been constructed and preparations are underway for people to move in by the end of June. Sivest is busy putting a business plan together for the provision of services to 180 sites (40%)

(iv) Integrated Development Plan lacked key performance targets

The municipality's Integrated Development did not include performance targets as required by Section 26(i) of the Municipal Systems Act which states that, an integrated development plan must reflect-

- (i) the key performance indicators and performance targets determined in terms of section 41.

(v) Lack of evidence for notice on adoption of the Integrated Development Plan (IDP)

Section 25(4)(a) of the MSA requires that: "A municipality must, within 14 days of the adoption of its Integrated Development Plan, give notice to the public of the adoption of the plan; and that copies of or extracts from the plan are available for public inspection at specified dates." Contrary to the requirement set out in Section 25(4)(a), there was no evidence provided to confirm that notice was given to the public of the adoption of the municipality's IDP.

(b) Non-compliance with Local Government: Municipal Planning and Performance Management Regulations

- (i) Lack of documented input indicators, output indicators and outcome indicators

Local Government: Municipal Planning and Performance Management Regulations, 2001 requires that "A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in Section 26(c) of the Act.

On review of the Integrated Development Plan, Service Delivery and Budget Implementation Plan (SDBIP) and Annual Performance Report, there was no evidence indicating inclusion of input indicators, output indicators and outcome indicators as required.

(ii) Planned and reported indicators/measures not well defined

Section 9(1) (a) and (b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that "A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26(c) of the Act.

(b) A key performance indicator must be measurable, relevant, objective and precise".

Section 9(1) (a) and (b) read together Framework for Managing Programme Predetermined objectives as issued by National Treasury states that:

A good performance indicator should be:

(a) Reliable: the indicator should be accurate enough for its intended use and respond to changes in the level of performance.

(b) Well-defined: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.

(c) Verifiable: it must be possible to validate the processes and systems that produce the indicator.

(d) Cost-effective: the usefulness of the indicator must justify the cost of collecting the data.

(e) Appropriate: the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.

(f) Relevant: the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.

Inspection of the following key performance indicators for basic services delivery and infrastructure development did not meet the above definition as these were not adequate to validate the processes and systems that produce the indicator.

Source: Integrated Development Plan

Infrastructure	Housing
Sisonke Water and Sanitation Plan includes Greater Kokstad Municipality (GKM) needs	Housing plan implemented
GKM eligible residents receiving free basic electricity	Middle income Housing within PPP implemented
Alternative Energy Programme Implemented	Slum Clearance completed
Feasibility of revitalising railway line completed	Investigation report on the implementation of housing rental stock
Feasibility of revitalising railway line completed	Implementation of Area Based Plan
	Improved housing aesthetics
Cemetery	

To ensure the provision of cemetery that will take cognisance of all region, culture and tradition	
Telecommunications	
To ensure that every citizen in the GKM has access to all communication system	
Railway line	
To ensure that the municipality is accessible to a variety mode of transport infrastructure	

(c) Non-compliance with the Municipal Finance Management Act, No. 56 of 2003

(i) No documented standard procedures for predetermined objectives

Section 62(1)(b) and (c) of the MFMA states that “the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure, full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards and that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of the internal audit operating in accordance with any prescribed norms and standards”.

Contrary to Section 62(i)(b), the municipality did not develop documented operating procedures on how predetermined objectives data was collected, stored, verified, analysed and reported to enable consistent collection and reporting.

Internal control deficiency

Lack of oversight by those charged with governance and the audit committee to ensure compliance with the applicable laws and regulations with regard to governance and performance measurements.

Recommendation

Management and those charged with governance need to consider how they respond to performance that is failing to meet targets, and must have action plans to identify and rectify any non-compliance weaknesses that might prevent them from reaping the full benefit of measuring performance.

Management response

The Municipality manages the performance of all its service providers on a monthly basis, particularly before payments are made. With regard to the service providers listed, the responses are as follows:

- i) Inter Waste/Enviro fill Waste – this was for the provision of training, which is a once service. Payment was made after the completion of training;
- ii) Pondo Civils rehabilitation of roads – performance of contractors is managed on a monthly basis. Once invoices have been supplied by the contractors, the engineer goes to site to measure the amount of work done, certify the payment and recommend for the municipality to pay. No payments are made by the municipality without the engineer's certificate. In addition this is included in the Monthly SDBIP that goes to MANCO, Council Committees and Council;

- iii) Mayoral Vehicle – this was a once transaction for the acquisition of the Mayoral vehicle. The vehicle was delivered in good order and continues to be. There was therefore no need for monthly monitoring of performance;
- iv) Xesibe Construction, Rehabilitation of Kokstad Roads Phase 4 - performance of contractors is managed on a monthly basis. Once invoices have been supplied by the contractors, the engineer goes to site to measure the amount of work done, certify the payment and recommend for the municipality to pay. No payments are made by the municipality without the engineer's certificate. In addition this is included in the Monthly SDBIP that goes to MANCO, Council Committees and Council;
- v) Umnotho Business Systems – This service provider is providing outsourced internal audit services. All their reports are assessed by the Accounting Officer and attached to the payment before the payment is processed. In addition all internal audit matters are included in the audit committee agenda on a quarterly basis and also presented to MANCO, Council Committees and Council on a monthly basis.

Security management companies – although the performance of security companies is not discussed and assessed on a monthly basis. Management uses the assumption that non-breach of security indicates that they have performed according to expectations.

The corrective measures for all performance achievements below 75% have been document with corrective measures and included in the annual report.

It is the management view that whilst the IDP is a five year strategic planning document, it is the SDBIP is annual extract of the IDP and should therefore be read with the IDP. The inclusion of the key performance indicators and performance targets in the SDBIP therefore means that the municipality has complied.

Notices were given to the public about the adoption of the IDP; in addition, the municipality went on the IDP road shows, which were widely publicized.

It is the management view that whilst the IDP is a five year strategic planning document, it is the SDBIP is annual extract of the IDP and should therefore be read with the IDP. The inclusion of the outputs and outcomes in the SDBIP therefore means that the municipality has complied. However, we have noted the comments from the Auditor General and after the completion of the Audit; Management will sit with the office of the AG to look at this matter.

Management has noted comments from the AG and procedures will be developed for the next financial year. Management has noted comments from the AG regarding overall monitoring and evaluation of performance. Procedures will be developed to report on these on a monthly basis.

Name: MA Nkosi
Position: MM
Date: 8 /11/2010

Auditor's conclusion

Advert attached was for 2010/11 IDP and not 2009/10 financial year. Evidence of service providers' performance on the annual report is not yet received. Corrective measures for all under-achievements should be disclosed on the annual performance report.

11. Matters of governance

Audit finding

Section 14(2) (b) of Local Government: Municipal Planning and Performance Management Regulations, 2001 states that "A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management" It is acknowledged that the municipality utilised Audit Committee to review performance management which is allowed in terms of Section 14(2) (a) of this regulation, however there was no evidence of any person who had expertise".

Section 14(1)(c)(i) and (ii) of Local Government: Municipal Planning and Performance Management Regulations, 2001 requires that "A municipality's internal auditors must -
(i) on a continuous basis audit the performance measurements of the municipality; and
(ii) submit quarterly reports on their audits to the municipal manager and the performance audit committee referred to in sub regulation (2)".

Section 62(1)(b) of the MFMA states that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards".

Paragraph 4.5 of the Audit Committee Charter requires Audit Committee to perform the following duties:

- "Evaluating the performance of internal audit including services provided by external service providers through Internal Audit";
- "Reviewing the internal audit function's compliance with its mandate as approved by the Committee".

On review of the profile of the audit committee and related documents, the following weaknesses were identified:

- a) No evidence was inspected indicating that the audit committee has a member with expertise on performance management,
- b) There was no evidence produced indicating that the audit committee did conduct a performance evaluation and reviewing the effectiveness of the internal audit function,
- c) There were no audits conducted by internal auditors on performance measurements on quarterly basis, and
- d) It was also noted that risk assessment performed included risk assessment relating to performance measurement, however there was no audit conducted on performance measurements as per risks assessed.

Internal control deficiency

Lack of oversight by those charged with governance and the audit committee to ensure compliance with the applicable laws and regulations with regard to governance and performance measurements.

Recommendation

Those charged with governance should ensure that the audit committee has an individual with performance measurement experience; that the information requested is provided and that the effectiveness of the internal audit is conducted timeously.

Management should also ensure that quarterly performance measurement reports are reviewed by the internal audit.

Management response

- a) ***No evidence was inspected indicating that the audit committee has a members with expertise on performance management***,- Management agrees with the audit findings regarding this matter, however subsequent to the financial year end, the Council resolved to increase the number of its audit committee members from three to four with a view of adding a member with performance management expertise. This has been done and the said member has already attended two audit committee meetings.
- b) ***There was no evidence produced indicating that the audit committee did conduct a performance evaluation and reviewing the effectiveness of the internal audit function*** – during the year under review the Audit Committee did conduct an evaluation of the internal audit function.
- c) ***There were no audits conducted by internal auditors on performance measurements on quarterly basis***,- Management agrees with the audit findings however an extensive internal audit on performance management was conducted with the assistance of the Provincial Treasury and its findings were presented to the Audit Committee and Council. Management has implemented all the recommendations of the findings during the finalisation of the performance contracts for the 2010/11 financial year;
- d) ***It was also noted that risk assessment performed included risk assessment relating to performance measurement, however there was no audit conducted on performance measurements as per risks assessed*** – Management is of the view that point number d) above should covers this finding.

Name: MA Nkosi
Position: MM
Date: 08/11/2010

Auditor's conclusion

Management to consider updating the comments to address the findings accordingly.

ANNEXURE B: OTHER IMPORTANT MATTERS

1. Financial statements weaknesses

Audit Finding

Section 63 (2)(b) of the MFMA states that "The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice".

Paragraph 19 of GRAP 1 states that "An entity whose financial statements comply with Standards of GRAP shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Standards of GRAP unless they comply with all the requirements of each applicable Standard of GRAP."

Paragraph 57 of GRAP 1 states that "Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

(e) the level of rounding used in presenting amounts in the financial statements."

Paragraph 141 of GRAP 1 states that "An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(b) a description of the nature of the entity's operations and principal activities;

(c) a reference to the relevant legislation governing the entity's operations".

Paragraph 127 of GRAP 1 states that "Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity".

On review of the financial statements, the following were noted:

1. A description of the nature of the entity's operations and principal activities are not disclosed on the financial statements.
2. No reference to the relevant legislation governing the entity's operations was made on the financial statements submitted.
3. There is no evidence that future events that may affect the amount required to settle an obligation were reflected in the amount of provisions as per GRAP 19.
4. An indication of the uncertainties about the amount or timing was not disclosed for the provision.
5. The major assumptions made concerning future events were not disclosed for the provision.

Internal control deficiency

The financial systems were not reliable to produce accurate and complete financial reports.

Recommendation

Management should adjust the financial statements accordingly.

Management response

Management has noted the findings; necessary adjustments have been made in the Annual Financial Statements. Weaknesses identified by the auditors were due to GRAP conversion from IMFO.

Name: L NDZELU

Position: CFO

Date: 11 NOVEMBER 2010

Auditor's conclusion

The weaknesses remaining in this finding are not yet corrected on the financial statements.

2. Documentation placed on website not in compliance with section 75

Audit finding

Section 75(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003 requires that:

(1) The accounting officer of a municipality must place on the website referred to in section 21A of the Municipal Systems Act the following documents of the municipality:

- (a) The annual and adjustments budgets and all budget-related documents;
 - (b) all budget-related policies;
 - (c) the annual report;
 - (d) all performance agreements required in terms of section 57 (1) (b) of the Municipal Systems Act;
 - (e) all service delivery agreements;
 - (f) all long-term borrowing contracts;
 - (g) all supply chain management contracts above a prescribed value;
 - (h) an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during the previous quarter;
 - (i) contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
 - (j) public-private partnership agreements referred to in section 120;
 - (k) all quarterly reports tabled in the council in terms of section 52 (d); and
- (2) A document referred to in subsection (1) must be placed on the website not later than five days after its tabling in the council or on the date on which it must be made public, whichever occurs first.

However, inspection and enquiries conducted with management indicated that the following documents were not placed on the municipality's website:

- a) all performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act;
- b) all service delivery agreements;
- c) all supply chain management contracts above a prescribed value;
- d) an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter;
- e) contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- f) all quarterly reports tabled in the council in terms of section 52(d)

Internal control deficiency

Lack of responsibility by those charged with governance and management to load respective documents to its website to ensure compliance with S 75 of the Municipal Finance Management Act (MFMA) No. 56 of 2003.

Recommendation

It is recommended that management should load the respective documents to its website to ensure compliance with S 75(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003.

Management response

Management agrees with the findings, the respective documents will be loaded to the municipal website to ensure compliance with S 75(1) of the Municipal Finance Management Act (MFMA) No. 56 of 2003.

Name: L. Ndzelu
Position: CFO
Date: 11/11/2010

Auditor's conclusion

Implementation of the audit finding will be evaluated during 2011 audit.

Cash and cash equivalents

3. Incorrect Bank Reconciling Items

Audit finding

Section 122 (1)(a) of the Municipal Financial Management Act of South Africa (Act No.56 of 2003) (MFMA) states that "every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year".

Section 63 (2)(b) of the MFMA states that "The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice".

During the audit of cash and cash equivalents, it was noted that the following were incorrectly included as reconciling items in the year end (30 June 2010) bank reconciliation:

- A deposit (amounting to R2,016.20) which was both recorded (on 30/06/2010 in the General Ledger) and received (as 2 deposits, R923.05 on 28/06/2010 and R1,093.15 on 30/06/2010, per inspection of the June bank statement) in June 2010; and is therefore not an appropriate reconciling item.
- A payment cheque number 52799 for R700 which was made and then subsequently cancelled, was recorded and reversed in the General Ledger (both on 11 June 2010), and resulting in a nil effect on the cash book and no change required in the bank statement; but still shown as a bank reconciling item.
- A payment EFT901132 for R9,500 was recorded in the general ledger on 17 June 2010 but only appeared in the July bank statement dated 09/07/2010. This is a reconciling item, however it did not appear on the year end bank reconciliation.

Misstatement of cash and cash equivalents (bank).

Internal control deficiency

This was due to both the human error and that the systems were not appropriate to facilitate the preparation of the financial statements and performance reports.

This resulted in the misstatement of cash and cash equivalents (bank).

Recommendation

Management should correct the reconciliations performed by having them reviewed by a senior personnel for accuracy and completeness. Management should investigate the whole population and process the necessary adjustments to the financial statements of the municipality.

Management response

Management will investigate the findings and make necessary adjustments in the Annual Financial Statements. The management has investigated the matter and due to the system not allowing the adjustments on bank control account, the corrections will be done in current year ending 30 June 2011.

Name: L NDZELU

Position: CFO

Date: 31 OCTOBER 2010

Auditor's conclusion

Implementation of the audit recommendation will be assessed during 2011 audit.

ANNEXURE C: ADMINISTRATIVE MATTERS

There were no administrative matters to be reported.